UNITED
NATIONS

TD

United Nations Conference
on Trade and Development

Distr.
GENERAL

TD/B/SCP/9
8 March 1994

Original: ENGLISH

TRADE AND DEVELOPMENT BOARD
Special Committee on Preferences
Twenty-first session
Geneva, 16 May 1994
Item 3 of the provisional agenda

REVIEW OF THE IMPLEMENTATION, MAINTENANCE, IMPROVEMENT AND UTILIZATION OF THE GENERALIZED SYSTEM OF PREFERENCES

Report of the Ad Hoc Expert Group on the Generalized System of Preferences
(24-25 February 1994)

submitted to the Secretary-General of UNCTAD

GE.94-50962 (E)

PART I: PROCEEDINGS

1. The Ad Hoc Expert Group on the Generalized System of Preferences was convened by the Secretary-General of UNCTAD in pursuance of the request made by the Special Committee on Preferences at its twentieth session to start preparations for the 1995 Policy Review on GSP and "to prepare in-depth analytical studies on the possibilities for improving the functioning and enhancing the impact of the GSP in the light of the evolution of the international economic and political environment". 1/ In preparing these studies, the Secretary-General was invited to consider "the advice of senior GSP experts, eminent personalities in international economics and international trade, academics or representatives of the business communities, from both developed and developing countries". 2/

2. The Ad Hoc Expert Group took place on 24 and 25 February 1994 in Geneva. It was chaired by Mr. Vijay Kelkar, Director, International Trade Division of UNCTAD. It had before it the following draft documentation prepared by the secretariat to be submitted to the twenty-first session of the Special Committee on Preferences: review of the implementation, maintenance, improvement and utilization of the GSP - seventeenth general report on the implementation of the generalized system of preferences: recent changes and policy issues (TD/B/SCP/6); technical assistance in connection with the GSP - Technical cooperation activities on the GSP and other trade laws, 1993 (TD/B/SCP/7); consultation on harmonization and improvement in the rules of origin - review of past discussions: recent developments; possible ways forward (TD/B/SCP/8); as well as a consultant's paper entitled "Possible improvements of the generalized system of preferences" (UNCTAD/ITD/8). The list of participating experts, who participated in their personal capacities, is contained in the annex.

PART II: CONCLUSIONS AND RECOMMENDATIONS

3. At its closing meeting, on 25 February, the Ad Hoc Expert Group agreed on the following conclusions and recommendations:

Objectives

(1) The original objectives of the GSP - trade expansion and industrialization - remain fully valid. Among them, added emphasis is being laid in the course of trade policy reforms in developing countries and countries in transition on export diversification, export capacity and competitiveness, which are necessary ingredients for the integration of the developing countries in the world trading system and their participation in the globalization of economic activity.

Principles

(2) The Group agreed that the original principles of the GSP - i.e. that it be generalized, non-discriminatory and non-reciprocal - needed to be realistically reinterpreted on a multilateral basis to give the GSP additional dynamism and impetus. The themes of harmonization and burden-sharing among the different schemes must underpin the process of revitalization of the GSP.

Benefit-sharing should not be achieved solely by decreasing the benefits of the more advanced beneficiary countries. The objective should be to increase the benefits and utilization of the GSP by the other beneficiaries.

(3) The revitalization of the GSP is specially needed in view of the reduction of preference margins as a result of the Uruguay Round, the expansion of free trade and preferential arrangements and of bilateral arrangements between preference-giving and other countries.

Duration of GSP schemes

(4) In order to increase predictability, GSP schemes should be regularly extended for a longer-term period.

Product coverage, graduation and safeguards

(5) These aspects of the GSP are closely related since comprehensive coverage is conditional on mechanisms to limit or deny preferential access when a beneficiary reaches a certain level of competitiveness or the domestic industry of the donor country is put at risk. Under such conditions, there should, however, be no major obstacles to comprehensive product coverage including all product categories, or to including them progressively in parallel with multilateral liberalization. Preference-giving countries should consult on ways to improve burden-sharing among themselves regarding coverage of particular sectors.

Country/product or sectoral graduation or differentiation

(6) A mechanism should be worked out, which should be transparent, objective, predictable and broadly agreed within a multilateral framework. Ceilings and tariff quotas are undermining the objectives of the GSP. A system of exclusion of products or product groups of competitive countries should be based on objective economic criteria, such as a combination of market-share of total donor imports, industrial capacities, level of development and export diversification. However, such country/product exclusions should be phased in over a reasonable warning period; tariff preferences should be preferably phased out progressively, where MFN duties are above a certain level; and country product exclusions should be reversible if the exclusion is no longer warranted. They should be applied on an agreed level of international tariff classification. The UNCTAD secretariat should be invited to undertake studies and simulations of the details of the mechanism.

Safeguards

(7) Most schemes incorporate a safeguard clause. These should involve an injury test along the lines of the relevant GATT provisions. The use of the safeguard clause subject to strict GATT conditions is preferable to the imposition of overall ceilings or tariff quotas.

Country graduation and beneficiary status

(8) The Group recognized that country graduation did take place but considered that country-product or product group exclusions were the preferred methods for gradually withdrawing GSP access from more advanced countries which have become competitive in these products or product groups. To the extent that country graduation did occur, it should be based on GDP per capita combined with a number of criteria, including sectoral diversification, and it should incorporate a warning period.

(9) In general, GSP status should not be limited by any conditions more restrictive than any multilateral disciplines established by the future World Trade Organization (WTO).

Annual audit

(10) Donor countries should undertake the discipline of demonstrating each year that changes in their GSP schemes, through safeguard actions, product-country exclusions, country graduation and other adjustments, increase the net value of their scheme to the beneficiaries measured as MFN tariff revenue forgone.

Special measures in favour of least developed countries

(11) The Group noted that in the case of the least developed countries the GSP needed to be supplemented by specific measures to promote trade and investment. The Group was strongly of the opinion that, in the operation of the GSP, continued differential measures in favour of the LDCs were required. Among these were extension of product coverage, exemption from the product-country exclusion procedures and, wherever possible, exemption from non-tariff trade measures on preferential exports and more liberal rules of origin.

Green GSP

(12) The Group considered possible merits and risks of recent proposals aimed at using the GSP for promoting environmentally sound production in developing countries. The Group saw several risks about the use that might be made of environmental conditions to resist the widening of coverage and general liberalization of access under the GSP, as well as the differential advantages such conditions might imply for the better-off developing countries. The Group insisted that any benefits from meeting environmental criteria must be additional to normal GSP benefits. Such a scheme should only operate in a cooperative manner and only on the basis of multilaterally agreed criteria.

A GSP for services

(13) The rapid growth of services trade and the success of the GATT negotiations raise the question of whether services exports of the developing countries could be offered preferential or differential access to the developed countries. The Group suggests that the Special Committee on Preferences should consider this issue further.

Consultation

(14) The Group was strongly of the view that changes in the rules or scope of individual GSP schemes have a great impact on beneficiaries. It invites the Special Committee to consider how it might make arrangements to reflect the beneficiary's views on such changes of GSP systems.

Rules of origin

(15) The Group noted the succession of past attempts to simplify and harmonize the rules of origin. However, in view of the problems that these rules continue to create for the utilization of the GSP and aware that coverage and country-product and country graduation were closely linked with such rules, the Group agreed that it was important to pursue those goals. It recommends that the Special Committee, in the first instance, establish a working group that includes policy-making officials from both donor and beneficiary countries to examine possible policy guidelines, taking into account such new developments as the reduction of tariffs and thus the reduced incentives to trade deflection; the new agreements in GATT on non-preferential rules of origin and the Common Declaration on preferential rules of origin; the fact that the present origin systems are quite restrictive for certain product groups; and the continued need for special measures for least developed countries.

Procedures for improving the rules of origin

(16) Regardless of the provisions in each preference-giving country's rules of origin, there will be instances in which a particular rule might be unduly restrictive. The Group discussed alternative proposals to deal with such problems. There was general agreement that such problems, including bilateral problems, might best be resolved using existing multilateral consultative procedures. Such consultations would include industry representatives from both preference-giving and preference-receiving countries, especially representatives from countries directly involved in the problem. The expected outcome of such consultations would be suggestions and recommendations for revision of the rules of origin.

Technical assistance on the GSP and other trade laws

(17) There was a consensus that the GSP technical assistance programme was an effective tool for dissemination of the GSP system and the improvement of its utilization. Bearing in mind that the GSP is one of the most remarkable achievements of UNCTAD, the Group agreed that the Programme should be continued and, to this end, recommended that:

(i) to partially offset declining resources, recipients of the Programme's assistance, i.e. preference-receiving countries, should be invited to consider various ways of contributing to it, such as trust fund contributions, or cost-sharing arrangements;

(ii) in carrying out its activities, the Programme should, inter alia, put more emphasis on rules of origin as well as on follow-up action to regional seminars, workshops and advisory missions;

(iii) the Programme should consider strengthening and deepening its activities on other trade laws issues to cover all regulations on access to markets of preference-giving countries, including investment aspects.

1/ Report of the Special Committee on Preferences on its twentieth session (TD/B/40(1)/10, annex I, para. 1.

2/ Ibid., para. 2.

Annex

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